DRAFT REPORT ON BUMPERS AND IMPORT SENSITIVTY ANALYSIS FOR MOROCCAN CITRUS

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CITRUS ANALYSIS

Morocco produces about 1.3 to 1.5 million tons of citrus each year on about 70,000 to 75,000 hectares of land. Therefore, overall yields range from about 17 mt/ha to 21.5 mt/ha. Shippers export about 40% of total production, usually between 425,000 and 530,000 mt. About 210,000 mt is "small" or specialty citrus, primarily the Clementine variety of mandarin or easy peeling tangerine, which represents about 30 percent of Morocco's citrus exports (46% of production). The later harvested Nour Clementine represents only 9% of exports, but 83% of production is exported. About 475,000 metric tons of oranges are exported (35 % of large orange variety production.). About 172,000 metric tons or 33% of exported oranges are of the Maroc Late Valencia variety (41% of production is exported). About 30,000 mt each of navel, sanguine, and Salustiana varieties are exported. Nearly 74% of Salustiana production is exported. Sanguine and Salustiana are blood oranges that have regained popularity after years of market disfavor.

Moroccan Export Markets

The EU is the main export market destination for Moroccan citrus, although a major diversification drive began in the late 1980's when it became clear that the integration of Spain into the Common Market was going to greatly reduce Morocco's market share. Since the early 1990's Spain's citrus production has increased and Morocco's citrus production has declined. The EU has used seasonal reference pricing linked to severely penalizing countervailing tariffs to protect the Spanish industry, reducing Morocco's export volumes to the EU by nearly fifty percent compared to their levels in the 1980s.

Morocco's diversification efforts have been relatively successful in opening new markets, even though they have not prevented a large decline in Morocco's total citrus output. Russia now takes about 30% of Moroccan citrus exports. Many producing countries in the southern portion of Eastern Europe and Western Asia are beginning to target the Russian market. Canada (5% or 20,000- 26,000 mt), Norway (3%), and Poland (2%) are also important outlets. Canadian imports are unlikely to grow because of competition from Spain and because the Canadian market is small. The future for Polish imports may also be in doubt after that country gains EU membership in 2004.

Morocco exports some citrus into the Middle East and Asia, but these quantities are declining because of increased transport costs and competition on these marketplaces. Morocco exports citrus into Sub-Saharan Africa, but growth is severely limited by the weakness of the economies in those markets, and by competition with South Africa for market share during the April through June period.

The USA has been a consistent importer of small quantities (around 10,000 to 15,000 mt) of Moroccan citrus for decades, but these quantities pale in relation to USA imports of citrus from Spain. The USDA estimates that the range of citrus imports to the USA from Spain will vary in the future between 85,000 mt to about 116,000 mt. Almost all of the citrus imports from Spain and Morocco are seedless Clementine easy-peeling mandarin. Since the late 1990's South Africa has begun to export Clementines to the USA from citrus black spot free zones.

USA Citrus Consumption and Markets

Navel and Valencia Oranges

US per capita consumption of fresh oranges has been flat or declining since 1980 (-0.1%). The bulk of US citrus production has gone into the production of juice concentrate, although the growth in "fresh juice", juice not from concentrate, consumption has diverted some production from the classic processing channels. US producers of navel and valencia oranges have been caught in the classic production-price squeeze. Cost of inputs, labor, and compliance with regulatory requirements steady increase while prices are stagnant or declining after inflation is taken into account. In addition, increasing urbanization in production zones and the natural pressures of freezes, tristeza citrus canker, and the appearance of new citrus pests have made it more difficult to maintain competitiveness as the domestic industry is faced with the pressures of globalization. The vast majority of citrus (and most orchard crop) workers in the USA are undocumented aliens, adding to the regulatory uncertainties faced by growers. Mechanized picking machinery has been in development for more than 30 years, but is not yet economic for fresh fruit. In an environment of flat consumption, imports of navel and valencia oranges will be directly competitive with US producers. Current imports from Morocco are insignificant.

Tangerines and Clementines

On the other hand, US per capita consumption of tangerines and Clementines has increased rapidly since the late 1980's, primarily because of the re-introduction of the Clementine imports following the citrus freeze in Florida in 1989/90. The Clementine was present as an imported specialty item on the US market in the post-WWII period, but gradually lost popularity as overall fruit and vegetable consumption in the USA declined during the 1960s and 1970s. Also the Clementine exporters in Spain and Morocco found that EU markets were more profitable than those in the USA.

The Clementine is a sweet, easy peeling (loose-skinned), and generally seedless mandarin orange that has shown a steady growth in imports over the last decade. It is a specialty fruit that is marketed primarily during the holiday season beginning around Thanksgiving and extending into January and February.

The Clementine is marketed differently from other citrus. Most citrus, including tangerines, is sold from a bin or in bags from a constant location in the fresh produce department. Clementines are generally sold from special end of row or seasonal display spaces (see Figure 1.). A substantial portion of Clementines are sold in 5 lb wooden boxes that are often used as gifts. Essentially all Clementines marketed in the USA are imported. A few small commercial operations based on Moroccan varieties have been planted in California. However, production is small and there are substantial problems with fruit quality and size of fruit on the Californian farms.

Figure 1. Examples of seasonal clementine displays.

To date there has been no demonstration of a negative relationship between the importation of Clementines and the prices or volume of tangerines sold by US producers. In fact, as the Florida Department of Citrus' own analyses have shown, it is the increase in shipments of Florida tangerines that has led to the decline in prices on US domestic markets. Increases in Clementine imports over the past few years have not depressed Florida tangerine prices. This study has found no published work on the demand cross-elasticities between tangerines and Clementines that would clarify the relationships between tangerines and Clementine prices.

Clementines are nearly twice as expensive as Florida tangerines on an FOB basis. Distribution channels are different, because most of the clementine volume is handled by importer/repacker/marketing organizations who treat the product as a specialty fruit. In sum, while there is presumptive substitutability between tangerines and clementines, the market treats them as separate products in the USA.

Sanitary and Phytosanitary Regulatory Issues

All citrus from Spain and Morocco is subject to cold treatment intended to eliminate the risk of Mediterranean fruit fly introduction. The Spanish cold treatment system failed to completely eliminate Medfly larvae in a series of shipments in 2001. USDA/APHIS responded by halting Spanish shipments, investigating, and developing a new protocol that extends cold treatments by one to two days depending on citrus variety. The ban on Spanish shipments was lifted in 2002. The change in the Spanish protocol for cold treatment was extended to Morocco, despite the fact that no viable larvae were found in Moroccan shipments. Shelf-life and commercial fruit quality is reduced by both the standard and the extended cold treatments. The US citrus industry has made official complaints to the USDA and testified to Congress over the USDA handling of the Spanish cold treatment failure. US citrus operators brought at least one suit against the USDA.

The Florida, California, and Arizona citrus industry groups and state bodies have testified before both state and federal bodies arguing against extension of fast-track trade authority for the President to enter into trade agreements. They have also opposed bilateral free trade agreements

with Jordan, South Africa, the Southern African Customs Union, primarily because they fear the transhipment of frozen orange juice concentrate or the investment by citrus competitors (Brazil and Spain) in these countries as a way of stepping around existing direct tariff barriers. The US citrus organizations have also indicated that they will oppose, or ask for extensive protections, under the upcoming Free Trade Agreement with Morocco. In general, they oppose citrus and citrus product tariff reduction under the WTO negotiations because of a lack of symmetry in levels of subsidy, labor costs and labor codes, environmental regulation, and taxation with other producing nations. The citrus organizations do not oppose unilateral trade agreements such as AGOA, because they feel that most Sub-Saharan African countries do not have the capacity to become major citrus exporters and because the agreements permit the USA to quickly withdraw preferential status if commercial, phytosanitary, or regulatory issues arise. Bilateral and multilateral mechanisms are viewed as too uncertain and too slow to provide relief in a way that prevent damage to the US industry.

BUMPERS AND US ISSUE ANALYSIS FOR USAID

At the world level, there was a large expansion in citrus production from the mid-1980s through the mid-1990s. Modelers now believe that citrus production will expand at a from 0.2 to 0.4 percent a year through about 2010 with total orange production reaching about 64 million tons with about 35 million tons consumed fresh. Tangerine and mandarin production is expected to stay flat or retrench to 15.4 million tons from its current levels of 15.5 million tons. About 90 percent of tangerine and mandarin production is consumer fresh. Growth in production and consumption of the Clementine mandarin is expected to increase because of its consumer appeal as easy-peeling and seedless fruit, the same characteristics that sustain banana and berry consumption.

The US Citrus industry is under pressure primarily because of the expansion of Brazilian (Brazil is year round supplier of citrus because of its northern and southern-hemisphere production zones), European, Turkish, Southern Hemisphere, and, in the medium-term, Chinese citrus production. It is also under pressure because of the expansion of US cities and suburbs and the resulting real estate conversion value of citrus orchards to other issues. Finally the constant increase in labor, agricultural chemicals, and regulatory compliance cost is a continuing source of pressure on producer and producer/packer margins.

The activities under MEPI are unlikely to promote US citrus company relocation to Morocco. The EU market is saturated with citrus and heavily protected against imports. Increased citrus production in the southern Mediterranean, especially in Turkey, will also increase supply onto the Eastern European market. The continuing controversy surrounding medfly from Spain, and by geographic extension, to Morocco for exports to the USA would make relocation to Morocco a technically risky investment. In addition, the Moroccan agricultural investment climate in agriculture is not materially improved from what it has been over the past decade. While long held public land is finally scheduled for long-term competitive leasing, much of the land already planted to citrus and other fruit tree groves has already been sold or leased out to Moroccan companies. Foreigners are not allowed to own agricultural land in Morocco. Water supplies continue to tighten, requiring investment in high unit cost drip irrigation systems. Commercial courts still have unpredictable outcomes.

Finally, the MEPI assistance examined by USAID/Morocco would not promote US companies to invest in Morocco. It is concerned only with improving the capacity of Moroccan associations to work with their members to deal with the intricacies of US market conditions and SPS requirements.

PD71 requires AA/ANE and AA/PPC approval for citrus support activities. AA support depends on the demonstration that there would be no significant impact on US producer interests and no political risk to the Agency's support of export enhancing activities.

PD51 Bumpers analysis determines whether the assistance would lead to significant negative impact on US exports to a third market. This would be Canada, because American tangerines and mandarin oranges do not have a presence on the EU market place. Canada is a major market for Florida tangerines and, to a lesser extent, from California. While it might be assumed that increased Moroccan exports to Canada may compete with Florida tangerines, Morocco does not ship any of the tangerine varieties grown in Florida or California to Canada. Moroccan shipments of Navel and Valencia oranges are small, increasing in volume only when Florida and California oranges are in short supply.

Spain is currently the world leader in Clementine exports with over 50% of the world market. Morocco is the number two exporter of Clementines. There are small scale plantings of Clementines in California, but the industry there has not shown much of an ability to expand production of Clementines since their introduction in the early 1900s. Phytosanitary reasons block the introduction of Clementines as a crop to Florida. Given the production, labor, and economic constraints that face production of the Clementine in the USA, it would make commercial sense for the US industry to invest in the Clementine industry in Morocco to blend its average costs of easy peeling fruit for the North American market and better compete with Spanish fruit on the winter/high margin periods. However, there seems to be little interest in the US industry for this type of strategic partnership.

Figure One shows that the USA does not have a major presence on the Canadian marketplace for mandarins and clementines. Morocco dominates the Canadian marketplace for Clementines because it dedicates its early season shipments of large sized fruit to the Canadian marketplace. The USA ships some mandarin oranges to Canada. Figure Two shows that there is no real competition between Morocco and the USA for the Canadian tangerine market. Figure Three shows that Moroccan and Spanish Navel and Valencia oranges enter the Canadian market in major volumes only when US production is low. Figure Four is directly extract from a Florida Department of Citrus report. It seems to suggest that Clementines do not compete with Florida tangerines for market share. Clementine prices are substantially higher than tangerine prices.

MEPI funding is legislatively exempted from Bumpers and PD71 provisions, because it is not Development Assistance money. If USAID were to waive its policy of applying PD71 and Bumpers amendment provisions to all sources of funding, then USAID Morocco could support citrus activities in Morocco. However, the political furor over the breakdown in the cold treatment of citrus from Spain in 2001, and the continuing political discord over the re-instatement of Spanish citrus shipments to the USA in late 2002, would make such a waiver a politically risky choice.

Figure 1. Canadian Imports of Mandarins and Clementins.

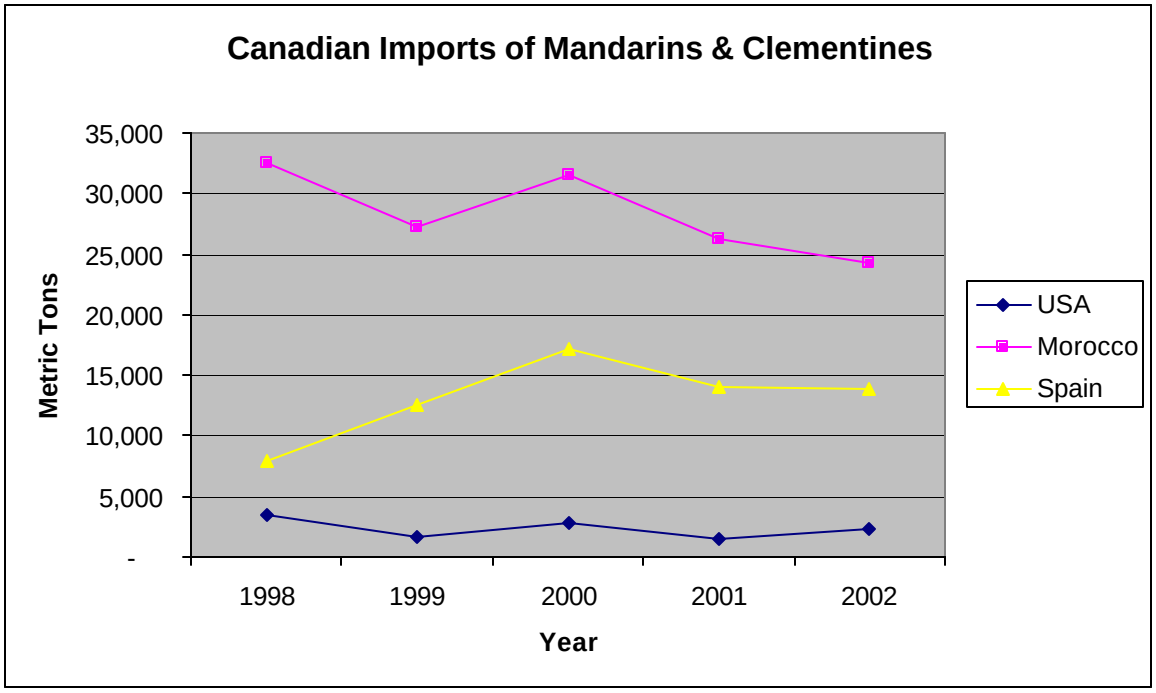

Figure 2. Canadian Imports of Tangerines

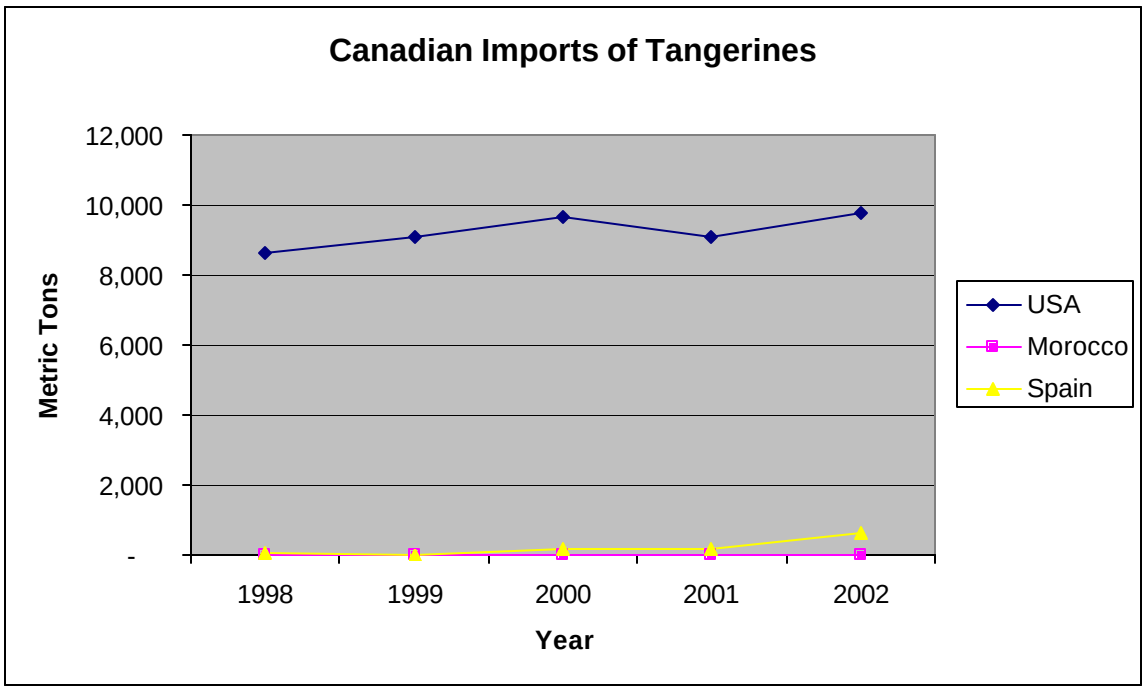

Figure 3. Canadian Imports of Fresh Oranges (Navels, Valencias, others)

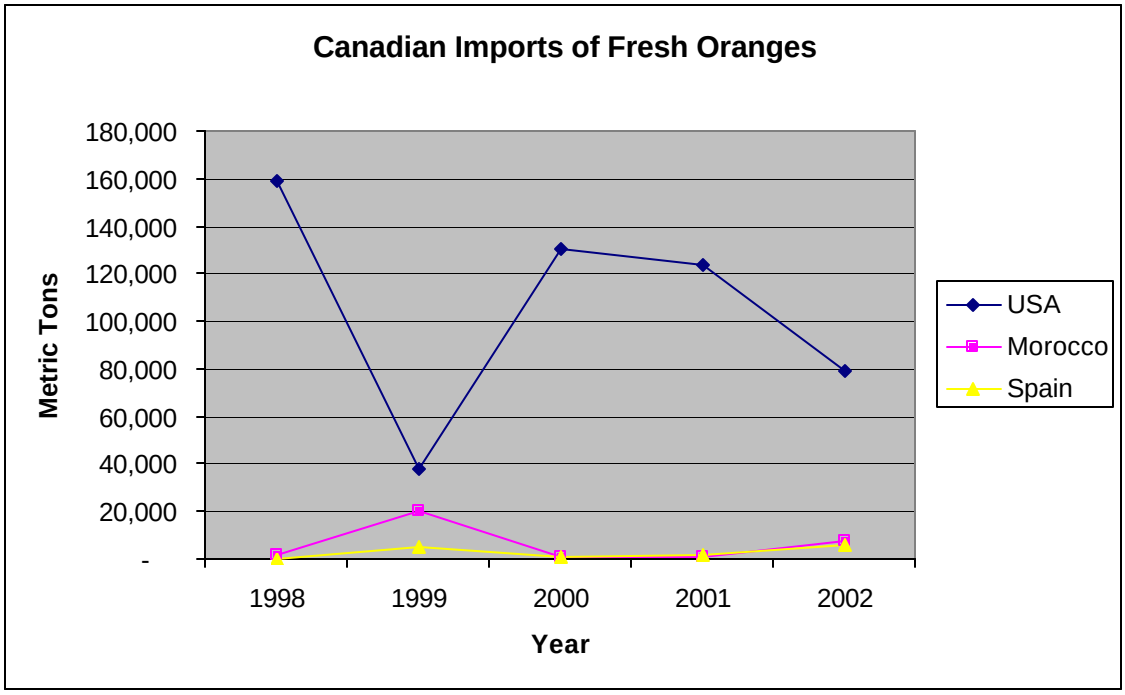

Figure 4. Tangerine Imports (mainly Clementines) and Florida Tangerine Shipments

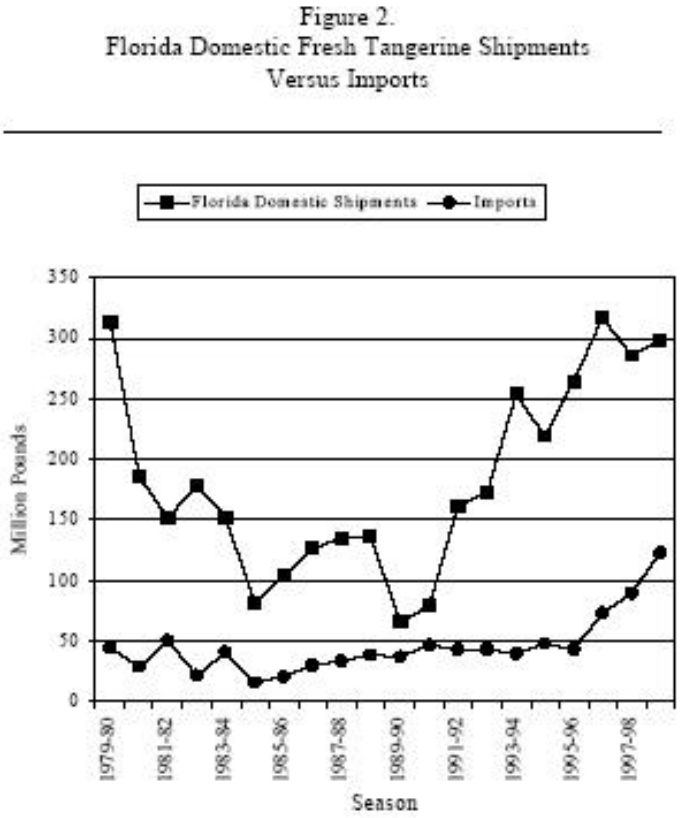

Table 1: Canadian Imports of US Citrus Commodities, 1998 – 2002

Fresh Mandarins (Incl. Clementines)			Fresh Tangerines			Fresh Oranges (Other)		
	MTs	U$000s		MTs	U$000s		MTs	U$000s
1998	3,447	2,411	**1998**	8,652	6,156	**1998**	158,854	68,978
1999	1,608	1,946	**1999**	9,111	7,103	**1999**	37,974	32,381
2000	2,870	2,155	**2000**	9,653	6,461	**2000**	130,491	51,113
2001	1,476	1,490	**2001**	9,105	6,815	**2001**	123,764	62,687
2002	2,362	2,076	**2002**	9,774	8,019	**2002**	79,092	67,329

Source: Statistics Canada

Note: Include HTS 805100019, Oranges, except Temple, fresh; HTS 805200019 Mandarins (exc tangerines), clementines (the US ships no clementines from its own production to Canada),

Wilkings and similar citrus hybrids, fresh and HTS 805200011, tangerines, fresh

Value: CIF US$000s

Table 2: Canadian Imports of Moroccan Citrus, 1998 – 2002

Fresh Mandarins (Incl. Clementines)			Fresh Tangerines			Fresh Oranges (Other)		
	MTs	U$000s		MTs	U$000s		MTs	U$000s
1998	32,515	31,823	**1998**	-	-	**1998**	1,804	1,804
1999	27,305	28,700	**1999**	-	-	**1999**	20,263	20,263
2000	31,539	33,181	**2000**	-	-	**2000**	649	649
2001	26,296	30,782	**2001**	-	-	**2001**	829	829
2002	24,248	33,382	**2002**	-	-	**2002**	7,292	7,292

Source: Statistics Canada

Note: Include HTS 805100019, Oranges, except Temple, fresh; HTS 805200019 Mandarins (exc tangerines), clementines, wilking Tangerines,Fresh

Value: CIF US$000s

Table 3: Canadian Imports of Spanish Citrus Commodities, 1998 - 2002

Fresh Mandarins (Incl. Clementines)			Fresh Tangerines			Fresh Oranges (Other)		
	MTs	U$000s		MTs	U$000s		MTs	U$000s
1998	7,988	8,740	**1998**	42	39	**1998**	130	94
1999	12,494	13,598	**1999**	3	300	**1999**	5,075	3,574
2000	17,096	17,903	**2000**	176	159	**2000**	448	302
2001	14,038	13,385	**2001**	156	186	**2001**	1,977	1,047
2002	13,895	13,983	**2002**	631	665	**2002**	5,543	3,163

Source: Statistics Canada

Note: Include HTS 805100019, Oranges, except Temple, fresh; HTS 805200019 Mandarins (exc tangerines), clementines, wilking Tangerines,Fresh

Value: CIF US$000s

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